



## **OXFORD ANALYTICA**

### **MEXICO**

### **MONETARY TRANSPARENCY**

#### **Country Report 2005**

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# MEXICO



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2005	2004	2003	2002
Clarity of roles	••••	••••	••••	--
Open decision process	••••	••••	••••	--
Availability of information	•••••	•••••	•••••	--
Central bank accountability	••••	••••	••••	--
<b>Score</b>	<b>4.25</b>	<b>4.25</b>	<b>4.25</b>	--

## OUTLOOK & COMMENTARY

The central bank of Mexico, Banco de Mexico (Banxico), makes available a comprehensive range of data and information, ranging from financial and monetary policy and statistics to internal regulations, the execution of its budget, and procurement contracts. Compliance with the Federal Law on Transparency and Access to Public Information provides for open access to most of this information. Transparency would increase if the Board of Governors' deliberations, including minutes and voting records, were made publicly available.

In order to enhance the efficiency of monetary policy, Banxico has commented on the possibility of moving away from its main policy instrument (the *corto*) to a formal reference interest rate, as well as making available its inflation forecasts. In practice, an informal use of a reference rate is already in place, and thus a smooth (official) transition to the new instrument is expected in the near term. Central bank officials are also evaluating the options in terms of the amount of data to be provided by its inflation forecasts, so as to ensure that financial markets (and the public in general) can adequately interpret and use this new information.

## EXECUTIVE SUMMARY

### 4.25 Compliance in progress

The central bank of Mexico, Banco de Mexico (Banxico), observes the IMF Special Data Dissemination Standard (SDDS) requirements in all categories within the scope of its responsibilities. Banxico publicly discloses how monetary policy implementation is conducted, and explains its instruments and targets in a comprehensive range of reports that are available on its website. In compliance with the Federal Law on Transparency and Access to Public Information, the central bank makes available comprehensive data and information, explains changes in the monetary policy stance, and provides regular financial statements in periodic publications that are released according to a publicly available calendar of announcements.

Since mid-2004, the central bank has gradually introduced a number of fine-tuning changes to the way monetary policy decisions are adopted and communicated to the public. These changes have been effective this year in steering inflation back towards the 3% long-term target, yet the ad hoc approach to introducing those changes has at times generated some uncertainty in financial markets. On one occasion, a policy decision was adopted outside the calendar of policy announcements, while changes to the policy stance have been linked to changing conditions of the *corto* (the amount of money that Banxico provides daily to the financial system at twice the equilibrium inter-bank interest rate), the external environment, and statements regarding the one-day Weighted Interbank Funding Rate (WIFR). Commentators considered that Banxico should provide more information regarding the evolving nature of the *corto* framework, which includes the adoption of the WIFR as a reference rate.

In practice, an informal use of a reference rate is already in place -- mainly in the form of a minimum level set for the WIFR. It is unclear when the official change of instrument will happen, but Banxico officials have acknowledged that once the benefits of using the *corto* as the main instrument are fewer than its disadvantages, the central bank will formally announce the replacement of the *corto* instrument. This year some commentators have considered that a reference rate should be adopted sooner rather than later. This is particularly the case because medium-term inflation expectations have improved, financial intermediation has gradually increased, the federal government's financing requirements are decreasing, and the central bank has better information to estimate the economy's neutral real interest rate.

The Board of Governors is also discussing the possibility of making available the central bank's medium-term inflation forecasts. However, since presidential elections are due in 2006, it is likely that Banxico will choose to release this information after the elections, and once there is an unambiguous trend of inflation expectations around the 3% permanent inflation target.

Mexico's overall score is unchanged from last year.

## 1. CLARITY OF ROLES, RESPONSIBILITIES AND OBJECTIVES OF CENTRAL BANKS



Compliance in progress

### The objectives and institutional framework of monetary policy

The objectives and institutional framework of monetary policy are established in Article 28 of the Mexican Constitution of 1917 and the 1993 Law of the Bank of Mexico (LBM).<sup>1</sup> The former guarantees the operational and administrative autonomy of the central bank, Banco de Mexico (Banxico), and establishes its primary objective of seeking the stability of the domestic currency's purchasing power.

#### Central bank objectives and responsibilities

Article 2 of the LBM sets out the broad objectives of the central bank and its policy: to provide domestic currency, to maintain the stability of the purchasing power of the currency, and to promote the sound development of the financial system and the proper functioning of payment systems. In addition, Article 18 establishes that Banxico must maintain a reserve of international assets aimed at supporting the stability of the purchasing power of the domestic currency by offsetting imbalances between the country's foreign currency receipts and disbursements.

The objectives and responsibilities are clearly explained and commented upon in several publications, available on Banxico's website. Banxico publicly discloses and explains its objectives through both the Monetary Policy Programme and the Monetary Policy Implementation Report (available in English and published in January and September, respectively)<sup>2</sup> and the *Annual Report* (available only in Spanish)<sup>3</sup>, which elaborates on the main objectives and results of monetary policy in comprehensive quantitative terms. Banxico's website also makes available the reports submitted to the legislature and other periodic publications in order to improve the quality of information available to the public.

#### Operational autonomy

Article 1 of the LBM states that the central bank is a legal entity subject to public law and autonomous in nature. Article 28 of the Mexican Constitution provides for Banxico's operational and administrative autonomy, and establishes that no authority can oblige the central bank to grant financing. Conditions under which the government can override central bank decisions do not exist.

There are minimal concerns about the government exercising informal pressure over foreign exchange policy.<sup>4</sup> The trend followed by the exchange rate has long confirmed Banxico's assurances of not pursuing an exchange rate target. Moreover, the present mechanism to auction dollars operates according to the inflow of international reserves registered in the previous three-month interval, and thus works independently of the current level of the foreign exchange rate. The amount of dollars to be auctioned daily are explained in quarterly press releases.<sup>5</sup>

However, Article 21 of the LBM states that in foreign exchange rate matters, Banxico should act in accordance with the guidelines established by the Exchange Commission. Institutional responsibility for foreign exchange policy remains with the members of this commission, which includes the secretary and undersecretary of the Ministry of Finance and Public Credit (SHCP), and an additional undersecretary of the SHCP (appointed by the secretary). The governor of Banxico and two more members of Banxico's Board of Governors complete the commission. The law establishes that the officer heading the session will have the decisive vote in case of a voting tie. The secretary of

finance takes the board's chair (only in his absence would the Banxico governor preside), which would thus grant additional legal leverage to the SHCP over foreign exchange policy. Nevertheless, commentators have said that any kind of government pressure -- either through the Exchange Commission or informally through any other means -- has been negligible in the last few years. For this reason, there has been little discussion about amending the LBM to change the role and powers of the Exchange Commission.<sup>6</sup>

The procedures for appointment, terms of office and general criteria for employment (including removal) of the members of the governing body are specified in the LBM. Articles 37-44 establish the terms and requirements of appointment, conditions for removal, and general responsibilities. The governor is appointed for a term of six years and the deputy governors for eight years. In order to fend off political interference, the term of the governor starts on the first of January of the fourth year of the executive president's term. The terms of the deputy governors are staggered, with one starting every other year on the first of January of the first, third and fifth years of the president's term.<sup>7</sup>

## **Institutional relationship between monetary and fiscal operations**

Since the connection between monetary and fiscal institutions has historically been much closer in Mexico than in other Latin American countries, the regulation of this relationship is clearly set out in various laws and statutes. Commentators have stated that the coordination between the SHCP and Banxico is strong and effective. This coordination has enabled monetary policy implementation to become more efficient, and thus has helped achieve the broader objectives of the government's macroeconomic policy while consolidating Banxico's independence.<sup>8</sup>

### **Lending to government**

Banxico can grant credit to the federal government as established in Articles 7 and 11 of the LBM, subject to the conditions of Article 12 and the Board of Governors' resolution. Credit can be granted through the account held by the Federal Treasury (securities payable by the federal government and owned by the central bank are not considered as credit). The outstanding balance in the account must never exceed the equivalent of 1.5% of the federal government's expenses as arranged in the annual federal budget. This provision may be void if, owing to extraordinary circumstances, the temporary difference between public revenues and expenses increases considerably, in which case Banxico can then issue securities payable by the federal government on the market for an equivalent to the balance in excess of the limit. The amounts and terms of credit to the government are disclosed in the *Annual Report*.<sup>9</sup>

In addition, Article 9 of the LBM stipulates that Banxico may not lend securities to the federal government nor purchase securities from it, except when purchases are covered by cash deposits or when the purchases of securities result from bids by the central bank in primary auctions. The amount of these purchases must not exceed the amount of securities payable by the government, owned by Banxico and redeemable on the same date of placement as the securities being auctioned.

### **Central bank involvement in the rest of the economy**

Article 63 of the LBM regulates central bank equity ownership. Banxico is forbidden to provide guarantees; to purchase or lease real estate not required to perform its functions (except under specific circumstances); or to purchase ownership interests in the capital of corporations, excluding those companies providing the required or appropriate services for the performance of central bank functions.

Article 46 (sec. XII) establishes that Banxico's Board of Governors is empowered to issue (subject to the guidelines set out in Article 134 of the constitution) the rules according to which the central bank must contract the acquisition

or sale of movable property, the leasing of all types of goods, the execution of real estate projects, and the procurement of all types of services. These operations must be effected through public bidding, excluding the provisions set out in Article 57. Banxico's rules on procurement are available on its website.<sup>10</sup> Information on all procurement contracts signed during each fiscal year, including the name of the supplier and the amounts involved, are also publicly available.<sup>11</sup>

### **Central bank profit allocation**

Banxico is a non-profit institution and, as established in Article 55 of the LBM, it must transfer to the federal government the full amount of its operating surplus after having made provision for the reserves set forth in the LBM, providing this does not imply reductions in the reserves resulting from the revaluation of assets. Profit allocation takes place no later than April of the financial year following that to which the surplus corresponds, and the amounts are included in the annual balance sheet.

### **Agency roles performed by the central bank on behalf of the government**

Detailed regulations provide for Banxico's role as fiscal agent for the government. Article 10 of the LBM sets out that only the central bank may act as the federal government's agent in issuing, placing, purchasing and selling government domestic debt securities and, in general, in servicing government debt. Banxico is also responsible for managing international reserves (LBM, Articles 18-23), acting as depository institution, and as issuing agent for sovereign debt on behalf of the government.

The central bank holds the current account of the Federal Treasury, and it may charge the account without authorisation of the Federal Treasurer in order to cover the federal government's domestic debt service. No cheques or any other documents payable to third parties may be drawn on this account.<sup>12</sup>

## 2. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS



Compliance in progress

### The framework, instruments and targets of monetary policy

Banxico's framework to pursue its monetary policy objectives and the instruments used to achieve them are explained in legislation, in its mission statement and written reports to the legislature, and in its press releases. All are available on Banxico's website.

#### Framework and monetary targets

The practices governing monetary policy and the central bank's inflation-targeting framework are publicly disclosed and explained in the LBM, research publications, the quarterly *Inflation Report* and the *Annual Report*. Procedures that are applicable to specific monetary interventions are published in daily press briefings and compiled in the *Annual Report*. Banxico's monetary policy instruments and their use are presented in the 'Implementation of Monetary Policy through the Zero-Average Reserve Requirement System' section.<sup>13</sup>

Specific details on how the new Daily Balances Regime (implemented in April 2003) operates under the zero-average requirement framework are available on the website (in Spanish only), including a comparative statement with respect to the previous Accumulated Balances Regime.<sup>14</sup> The report explains how monetary policy is implemented through the '*corto*' mechanism -- which is the amount of money that Banxico provides daily to the financial system at twice the equilibrium inter-bank interest rate -- in order to pursue its chief objective of stability of the peso's purchasing power via inflation targeting.

The permanent, long-term target is 3% within a plus/minus one percent band as measured by the consumer price index (INPC). Supply-side shocks in 2004, stemming from the sustained increase in oil prices and other seasonal effects, had caused the monthly inflation figure to inch above 4% year-on-year. Since then, the central bank has gradually introduced a number of fine-tuning changes to the way monetary policy decisions are adopted and communicated to the public. Although commentators agreed that these changes were effective in steering inflation this year back towards the target, some also judged that the ad hoc approach to introducing those changes had generated uncertainty in financial markets. More specifically, on one occasion a policy decision was adopted outside the calendar of policy announcements, while changes to the policy stance have been linked to changing conditions of the *corto*, the external environment (such as the tightening cycle of interest rates in the United States), and statements regarding the one-day Weighted Interbank Funding Rate (WIFR)<sup>15</sup> -- which included both fixing a minimum level or allowing adjustments even when the *corto* remained unchanged. Commentators considered that Banxico should provide more information regarding the evolving nature of the *corto* framework and about the introduction of a formal reference interest rate.<sup>16</sup>

There have been discussions about the suitability of having the inflation target measured by the INPC, instead of targeting core inflation.<sup>17</sup> Banxico officials have stated that the INPC provides a much better description of people's living costs, and therefore the target should be based on general inflation. Further, this framework allows Banxico to monitor all administered prices, detect any underlying price distortions they might produce, and discuss with the SHCP the potential impact on inflation of future changes in administered prices. In any case, Banxico also measures and examines core inflation to gauge the strength of any demand-side pressures within the INPC.<sup>18</sup>

The Board of Governors is also discussing the possibility of making available the central bank's medium-term inflation forecasts. However, some commentators said that since presidential elections are due in 2006, it is likely that Banxico will choose to release this information after the elections, and once there is an unambiguous trend of inflation expectations around the 3% inflation target. At present, central bank officials are evaluating what the best options would be in terms of the amount of information provided and data layout, such that changes to the monetary policy stance can be more effective in controlling inflation.<sup>19</sup>

### **Monetary instruments**

Under the provisions in Article 7 of the LBM and Article 28 of the constitution, Banxico has the authority to use several monetary instruments to meet its objectives. In relation to the *corto* mechanism, the central bank is entitled to grant credit and receive bank deposits from commercial credit institutions in order to regulate the amount of currency in circulation. Banxico is also entitled to offset any increase in the amount of currency in circulation or in its on-demand liabilities resulting from acquisitions of foreign currency by placing or, if necessary, issuing securities payable by the federal government under the terms established in Article 12 (sec. IV) of the LBM.

Since early 2004, there have been extensive discussions over the effectiveness of Banxico's main instrument, the *corto*, to subdue inflationary pressures. As an instrument, it is clear that given the marginal amount of money that the *corto* represents relative to the broad money supply, the mechanism's power lies in the signal that its change sends to the financial markets, rather than in its impact on liquidity (and thus short-term interest rates). As a result, there have been several instances when the level of short-term interest rates set by commercial banks went against Banxico's policy stance.<sup>20</sup> In order to correct this, central bank officials -- including Governor Guillermo Ortiz on several occasions -- have commented on the possibility of moving away from the *corto* and introducing another instrument -- such as an official reference rate -- in the near term.

In practice, as mentioned above, an informal use of a reference rate is already in place -- mainly in the form of a minimum level set for the one-day WIFR (also known as *fondeo* rate). It is unclear when the official change of instrument will happen, but Banxico officials have acknowledged that once the benefits of using the *corto* as the main instrument are fewer than its disadvantages (which should be the case once the inflation trend fluctuates markedly around the 3% long-term target), the central bank will formally announce the replacement of the *corto* instrument. The *corto* is still perceived as effective in signalling Banxico's policy stance, but unlike in 2004, some commentators now consider that a reference rate should be adopted sooner rather than later. This is particularly the case because medium-term inflation expectations have improved, financial intermediation has gradually increased, the federal government's financing requirements are decreasing (thus lessening 'crowding-out' effects), and the central bank has better information to estimate the economy's neutral real interest rate.<sup>21</sup>

## **The monetary policy-making body**

The Board of Governors is responsible for assessing economic developments and ensuring that Banxico achieves its monetary objectives. Article 38 of the LBM addresses the board's composition, structure, and functions which, in compliance with the Federal Law on Transparency and Access to Public Information (LFTAI), are available on Banxico's website.<sup>22</sup>

### **Monetary board**

Articles 38-47 of the LBM provide clear guidelines over the appointment requirements and procedures, the terms of the governor and the Board of Governors, their powers and responsibilities, and conditions for removal. The board is made up of five members: the governor (with a six-year term) and four deputy governors (with an eight-year term each). All members may be appointed for more than one term.



Article 40 establishes that the term of the governor must start on the first of January of the fourth year of the presidential term. The terms of the deputy governors are staggered, with one starting every other year on the first of January of the first, third and fifth years of the executive's term. This mechanism, in practice, aims at minimising the risk of having conflicts of interest during the political cycle, since the tenure of board members does not coincide with the presidential and legislative terms. Nevertheless, the reappointment process of Governor Guillermo Ortiz in 2003 was somewhat beset by the political dispute between the ruling party and opposition in Congress.

All board members are barred from participating, as representatives of the central bank, in the activities of political parties. Article 43 of the LBM and Article 28 of the constitution establish the precise cases under which board members can be removed.

### **Advance meeting schedule**

The Board of Governors holds fortnightly scheduled meetings and, in compliance with the requirements of the LFTAI, its decisions on monetary policy are made available according to a pre-established schedule.<sup>23</sup>

In addition, the board meets daily to assess the behaviour of domestic and foreign financial markets, where it decides if a change in broad money supply is needed in order to attain the amount of liquidity required by the *corto* mechanism. Decisions over liquidity intervention are posted daily on the website.<sup>24</sup>

### **Public statements on monetary policy**

Monetary policy decisions are released and explained immediately by announcements to the press and on the Banxico website, and then compiled in the Monetary Policy Bulletin and the *Annual Report*. In addition, the Monetary Policy Programme (published in January) explains the targets and how the instruments will operate in order to meet those targets. Nevertheless, monetary transparency -- both in terms of overall availability of information and as a way to enhance the individual accountability of the members of the Board of Governors -- would increase if the minutes and voting records from board meetings were made publicly available, even if these were published with a significant time lag.<sup>25</sup>

Given Banxico's inflation-targeting framework, additional information is provided to improve the quality of information available and help the market read the central bank's monetary policy signals correctly. Information includes the quarterly Inflation Reports, the Annual Monetary Policy Implementation Report, a brief explaining how the INPC and the producer price index (INPP) are compiled, along with the relevance of measuring core inflation.<sup>26</sup>

### **Periodic publications**

In compliance with the LFTAI, Banxico incorporates all changes in monetary policy in periodic publications that are released according to the calendar of announcements posted on its website. These publications include the Monetary Policy Announcements (fortnightly), the Press Releases on Monetary Policy (monthly) and the Inflation Reports (quarterly). The *Annual Report* compiles most of this information. The central bank also posts on its website a broad range of financial and monetary indicators, and it also carries out a survey of inflation expectations among research institutions and independent experts.<sup>27</sup>

### **Public hearings**

Banxico officials hold consultations with the executive, legislature and various governmental and private sector committees that supervise and help regulate the financial, securities, and banking sectors. However, a legal

framework for receiving and incorporating public consultation on technical changes in the operation of monetary policy does not exist.<sup>28</sup>

### **Regulations on data reporting by financial institutions to the central bank**

Article 36 of the LBM stipulates clear regulations on data reporting for financial institutions. Financial intermediaries must provide Banxico with the information the latter may request on their operations, as well as the data necessary to evaluate their financial situation and, in general, all information required by Banxico to adequately perform its functions.

Article 37 establishes that Banxico can suspend all or some of its operations with those financial intermediaries that breach the LBM. Legislation and data reporting regulations for commercial banks, equity and foreign currency brokers, credit bureaus, and other financial institutions are available on its website (in Spanish only).<sup>29</sup>

### 3. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY

●●●●● Full compliance

#### Release of central bank data

The central bank is responsible for compiling and disseminating monetary, balance of payments, consumer and producer price indices. It also disseminates other information and macroeconomic statistics compiled by other statistics-producing agencies, such as the SHCP, the National Statistics Institute (INEGI), and the National Banking and Securities Commission (CNBV). The statistics are regularly updated and most are available in English and Spanish.<sup>30</sup>

Since Banxico implements monetary policy to achieve price stability, and this objective is measured by a variable (the INPC) that the central bank itself is in charge of compiling, there are several checks in place in order to fend off any conflicts of interest. Notably, the methodology for compiling the INPC was awarded the quality certification ISO-9002 in December 2000 and the ISO-9001 in May 2001.<sup>31</sup> The INPP was awarded the quality certification ISO-9001 in January 2003.<sup>32</sup>

Banxico observes the IMF Special Data Dissemination Standard (SDDS) requirements in all categories within the scope of the central bank's responsibilities. Data periodicity and timeliness exceed the requirements with respect to the analytical accounts of the central bank and international reserves. Timeliness requirements are also exceeded with respect to the consumer and producer price indices, the balance of payments (including the international investment position), and the trade balance.

Advance release calendars are published in hardcopy, on Banxico's website and on the IMF's Dissemination Standards Bulletin Board, and are updated three months in advance of data release. Data are disseminated simultaneously to all interested parties on the website.

#### The central bank balance sheet

In compliance with Article 40 of the *Internal Regulations of the Bank of Mexico (RIBM)*<sup>33</sup>, the *General Annual Balance* is published five working days after the Board of Governors acknowledges receipt from the external independent auditor.<sup>34</sup> The consolidated balance statements (monthly) are released 20 working days after the end of the relevant month. In addition, Banxico publishes weekly preliminary information on its balance sheet, as established by Article 41 of the RIBM.<sup>35</sup>

Article 38 of the RIBM specifies the items that must be included in all balance sheet reports and in the monthly statements. Banxico is obliged to publish the year-end financial balance sheet and a consolidated statement of accounts for the last day of every month. Accounting standards, emergency lending, and disclosure of foreign exchange assets are made available in the balance sheets and in the *Annual Report*.

#### Lender of last resort

Article 28 of the constitution establishes that no authority can oblige the central bank to grant credit, thus protecting Banxico's autonomy with regard to this type of operation. Article 3 of the LBM establishes that Banxico may, under

the terms of Articles 15 and 16, operate as lender of last resort for credit institutions. Banxico is authorised to grant credit to commercial banking institutions in order to prevent disruptions in the payment systems. In general, financing granted to any credit institution should be guaranteed by deposits of money and securities that these institutions have at Banxico. The amounts and terms of credit to financial institutions are disclosed in press bulletins, if the Board of Governors considers that this information will not jeopardise financial stability.

## **Public information services**

Banxico maintains comprehensive public information services. These include periodic publications on statistical tables and time-series data, statements on monetary policy, annual reports, research reports, speeches and other presentations that are available in electronic format. Banxico's website also includes a section of frequently asked questions and, if an answer is not found, an electronic inquiry form addressed directly to one of the deputy governors is available.<sup>36</sup> There are comprehensive services with access through the library, which also compiles external research documents and other publications relevant to the Mexican economy.<sup>37</sup>

## 4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY BY THE CENTRAL BANK

●●●● Compliance in progress

### Accountability before a designated public authority

Central bank officials attend regular supervisory and regulatory board meetings. Reporting requirements (Article 51 of the LBM) to both the executive and the legislature ensure statutory accountability. In addition, Article 52 of the LBM specifies that either of the two chambers in Congress (Deputies or Senate) may summon the governor to report on the central bank's policies and activities. Given the prudent implementation of monetary policy in past years, it is not customary for board members to be routinely called by Congress to discuss specific issues related to monetary policy. On the other hand, the governor is summoned by Congress to provide a presentation on broader topics, such as the president's annual budget draft and the domestic/global economic prospects.<sup>38</sup>

Since Banxico also has the objective of promoting the sound development of the financial system and fostering the proper functioning of the payment systems, the oversight powers regarding the payments system were substantially enhanced through the Law on Payments Systems of 2002.<sup>39</sup> Nevertheless, for accountability purposes, some commentators highlighted that Banxico should provide more information on its tasks as a supervisory agency and on developments conducive to enhance the performance of the payments system.<sup>40</sup>

### Financial statement

#### Audited financial statement

In compliance with the LFTAI, the audited financial statements for monthly and annual balances are publicly available on Banxico's website.<sup>41</sup> Both reports follow a pre-announced release schedule as set out by the LBM and the RIBM. There are three distinct audit levels: Internal Comptroller, an external firm, and the Federal Audit Office.

#### External and internal audit

Article 50 of the LBM authorises the secretary of finance to request from an accountants' collegiate organisation the name of three highly regarded accounting firms, from which the secretary -- with the agreement of the Chamber of Deputies' Finance Accounting Vigilance Commission -- designates and hires an external auditor on behalf of the central bank.<sup>42</sup> In addition, the Federal Audit Office (ASF, an autonomous, auxiliary body to the Chamber of Deputies) carries out independent audits as part of its supervision capacities over the federal executive branch.<sup>43</sup> Most reports acknowledge that accounting practices follow those prescribed by the Mexican Institute of Public Accountants, but suggest that providing a more thorough treatment of the underlying accounting practices would facilitate the reading and interpretation of Banxico's balance sheets. The president and Congress also receive audit reports on the execution of Banxico's expenditure and physical investment budget from the external auditor.<sup>44</sup>

Internal governance and audit procedures are defined in Article 30 of the RIBM, which stipulates that the Internal Comptroller must ensure compliance with the relevant legislation. The Internal Comptroller also receives and resolves non-conformities related to suppliers, contracts, and procurement, as well as spearheading modernisation programmes and administrative development. The audit report (updated quarterly) is available on Banxico's website.<sup>45</sup>

## **Conduct of officials**

Standards for personal conduct of all central bank employees, and additional requirements for senior officials, are outlined in Article 61 of the LBM. The Board of Governors and all personnel must adhere to the Federal Civil Servants' Responsibility Act and guidelines established in the LFTAI. Board members, officials holding posts of deputy manager or above, and the personnel indicated in the RIBM must submit reports on the value and number of personal assets and property to the Internal Comptroller's Department. Article 43 of the LBM establishes the precise cases under which board members can be removed.

## INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Mexico between 3 and 6 October 2005:

### Central Bank of Mexico (Banxico)

#### 4 October 2005

Alberto Torres	Manager of Monetary Policy Research
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### Ministry of Finance and Public Credit (SHCP)

#### 6 October 2005

Alexis Milo	Director of Fiscal Policy Head of the Investor Relations Office
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## ADDITIONAL INTERVIEWS

#### 3 October 2005

Ricardo Sierra	Deputy Director	Centro de Estudios de las Finanzas Publicas (CEFP) Chamber of Deputies, Congress
Mario Rodarte	Director General	Centro de Estudios Económicos del Sector Privado (CEESP-CCE)

#### 5 October 2005

Joost Draaisma	Senior Economist	World Bank
Alejandro Ortiz	Project Manager	Fundar
David Dávila	Researcher	Fundar
Mariana Pérez	Researcher	Fundar

## NOTES

<sup>1</sup> The Law of the Bank of Mexico (in English) is available on Banxico's website at:

[www.banxico.org.mx/siteBanxicoINGLES/aAcercaBanxico/RegimenJuridico/LeyBancoMexico/LeyBancoMexico.html](http://www.banxico.org.mx/siteBanxicoINGLES/aAcercaBanxico/RegimenJuridico/LeyBancoMexico/LeyBancoMexico.html)

<sup>2</sup> [www.banxico.org.mx/siteBanxicoINGLES/bPoliticaMonetaria/FSpoliticaMonetaria.html](http://www.banxico.org.mx/siteBanxicoINGLES/bPoliticaMonetaria/FSpoliticaMonetaria.html)

<sup>3</sup> [www.banxico.org.mx/siteBanxicoINGLES/gPublicaciones/InformeAnual/infori.html](http://www.banxico.org.mx/siteBanxicoINGLES/gPublicaciones/InformeAnual/infori.html)

<sup>4</sup> Interviews in Mexico, 3-6 October 2005. In March 2003, Banxico introduced a mechanism to reduce the rate of growth in foreign reserves that incorporates a set of conditions enabling Banxico to auction a predetermined amount of dollars. Initially, the auctions appeared to be a vehicle to bolster the currency in the medium term. Since late 2003, however, it has been clear that the central bank practices a clean-float policy. See *Mecanismo para reducir el ritmo de acumulacion de reservas internacionales* (in Spanish only) at:

[www.banxico.org.mx/bPoliticaMonetaria/FSpoliticaMonetaria.html](http://www.banxico.org.mx/bPoliticaMonetaria/FSpoliticaMonetaria.html)

<sup>5</sup> See "Monto de la subasta de dólares a vender diariamente"; the daily dollar auctions for November 2005 – January 2006 are explained in:

[www.banxico.org.mx/fBoletines/Boletines/calendario2005/18oct2005subastadolares.pdf](http://www.banxico.org.mx/fBoletines/Boletines/calendario2005/18oct2005subastadolares.pdf)

<sup>6</sup> Interviews in Mexico, 22-25 November 2004 and 3-6 October 2005.

<sup>7</sup> Moreover, the governor and deputy governors must abstain from participating, as representatives of Banxico, in any activity of political parties.

<sup>8</sup> Interviews in Mexico, 3-6 October 2005.

<sup>9</sup> See, for example, *Annual Report*, 2004, p. 106 at:

[www.banxico.org.mx/eInfoFinanciera/DoctosBM/{F078DDB0-5851-45BA-9068-A34A197AC327}.pdf](http://www.banxico.org.mx/eInfoFinanciera/DoctosBM/{F078DDB0-5851-45BA-9068-A34A197AC327}.pdf)

<sup>10</sup> *Normas del Banco de Mexico en materia de contrataciones* (in Spanish only):

[www.banxico.org.mx/aAcercaBanxico/Transparencia/marconormativo/marconormativo.html](http://www.banxico.org.mx/aAcercaBanxico/Transparencia/marconormativo/marconormativo.html)

<sup>11</sup> See *Contrataciones iniciadas durante el 2005* (in Spanish only) at:

[www.banxico.org.mx/aAcercaBanxico/transparencia/contrataciones/Contrataciones\\_BM\\_2005.html](http://www.banxico.org.mx/aAcercaBanxico/transparencia/contrataciones/Contrataciones_BM_2005.html)

<sup>12</sup> LBM, Article 12.

<sup>13</sup> [www.banxico.org.mx/public\\_html/dgobc/zero.html](http://www.banxico.org.mx/public_html/dgobc/zero.html)

<sup>14</sup> *Conduccion de la Politica Monetaria -- Regimen de Saldos Diarios* (in Spanish only):

[www.banxico.org.mx/bPoliticaMonetaria/FSpoliticaMonetaria.html](http://www.banxico.org.mx/bPoliticaMonetaria/FSpoliticaMonetaria.html)

<sup>15</sup> The Weighted Interbank Funding Rate is the representative interest rate on one-day repo and one-day outright operations by banks and stockbrokerage firms.

<sup>16</sup> Interviews in Mexico, 3-6 October 2005.

<sup>17</sup> Core inflation excludes government-administered prices and wares that are subject to excessive seasonal volatility, thus giving an index of prices that the central bank could truly influence with monetary policy.

<sup>18</sup> Interviews in Mexico, 22-25 November 2004 and 3-6 October 2005.

<sup>19</sup> Interviews in Mexico, 3-6 October 2005. In particular, the central bank wants to ensure that financial markets (and the public in general) can adequately interpret and use the information provided by the inflation forecasts. Therefore, it is imperative that the forecasts are recognised as information that is conditional on the underlying assumptions, and thus the forecasts are likely to change according to future adjustments to the policy stance and unforeseen external shocks.

<sup>20</sup> Interviews in Mexico, 22-25 November 2004 and 3-6 October 2005.

<sup>21</sup> Interviews in Mexico, 3-6 October 2005. Given the current low levels of inflation, the demand channels (interest rates) through which monetary policy works have become more important than the supply channels (such as the exchange rate and inflation expectations). This is because, among other things, financial intermediation has increased (commercial banks have to rely on lending operations to generate profits, instead of trading operations and commissions/fees given the low-volatility environment) and people/firms can perceive the interest rate as an adequate measure of the cost of money.

<sup>22</sup> See information in compliance with the Federal Law on Transparency and Access to Public Information (in Spanish only), including the board's composition and salaries, and the administrative departments' structure and functions at: [www.banxico.org.mx/aAcercaBanxico/transparencia/fstransparencia.html](http://www.banxico.org.mx/aAcercaBanxico/transparencia/fstransparencia.html)

<sup>23</sup> Calendar of Announcements on Monetary Policy Decisions:

[www.banxico.org.mx/siteBanxicoINGLES/bPoliticaMonetaria/PoliticaMonetaria/InformeSobreInflacion/2002/TrimestreIII/calendarioingles.html](http://www.banxico.org.mx/siteBanxicoINGLES/bPoliticaMonetaria/PoliticaMonetaria/InformeSobreInflacion/2002/TrimestreIII/calendarioingles.html)



<sup>24</sup> *Intervenciones en el Mercado de Dinero--12.30 horas* (in Spanish only):

[www.banxico.org.mx/fBoletines/Boletines/FSBoletines.html](http://www.banxico.org.mx/fBoletines/Boletines/FSBoletines.html)

<sup>25</sup> Interviews in Mexico, 3-6 October 2005.

<sup>26</sup> Quarterly Inflation Reports:

[www.banxico.org.mx/siteBanxicoINGLES/bPoliticaMonetaria/PoliticaMonetaria/InformeSobreInflacion/iinfoinflacion.html](http://www.banxico.org.mx/siteBanxicoINGLES/bPoliticaMonetaria/PoliticaMonetaria/InformeSobreInflacion/iinfoinflacion.html)

<sup>27</sup> [www.banxico.org.mx/siteBanxicoINGLES/eInfoFinanciera/FSinfoFinanciera.html](http://www.banxico.org.mx/siteBanxicoINGLES/eInfoFinanciera/FSinfoFinanciera.html)

<sup>28</sup> Interviews in Mexico, 3-6 October 2005.

<sup>29</sup> [www.banxico.org.mx/dDisposiciones/FSDisposiciones.html](http://www.banxico.org.mx/dDisposiciones/FSDisposiciones.html)

<sup>30</sup> See Mexico's Data in the IMF's Dissemination Standards Bulletin Board at:

[www.banxico.org.mx/siteBanxicoINGLES/eInfoFinanciera/infcarteleraelectronica/imf.html](http://www.banxico.org.mx/siteBanxicoINGLES/eInfoFinanciera/infcarteleraelectronica/imf.html)

<sup>31</sup> See *Guías de índices de precios -- INPC* (in Spanish only) at: [www.banxico.org.mx/inpc](http://www.banxico.org.mx/inpc)

<sup>32</sup> See *Guías de índices de precios -- INPP* (in Spanish only) at: [www.banxico.org.mx/inpp](http://www.banxico.org.mx/inpp)

<sup>33</sup> *Reglamento Interior* (in Spanish only):

[www.banxico.org.mx/aAcercaBanxico/Transparencia/marconormativo/marconormativo.html](http://www.banxico.org.mx/aAcercaBanxico/Transparencia/marconormativo/marconormativo.html)

<sup>34</sup> The *General Annual Balance for Fiscal Year 2004* is available at:

[www.banxico.org.mx/eInfoFinanciera/DoctosBM/{E08C736B-3884-4521-9E67-71DE835CD799}.pdf](http://www.banxico.org.mx/eInfoFinanciera/DoctosBM/{E08C736B-3884-4521-9E67-71DE835CD799}.pdf)

<sup>35</sup> *Información financiera contable del Banco de México* (in Spanish only):

[www.banxico.org.mx/doctosbm/navegacion.jsp?nombre=InfFinancieraContable](http://www.banxico.org.mx/doctosbm/navegacion.jsp?nombre=InfFinancieraContable)

<sup>36</sup> [www.banxico.org.mx/siteBanxicoINGLES/mTextos/Fscontacto.html](http://www.banxico.org.mx/siteBanxicoINGLES/mTextos/Fscontacto.html)

<sup>37</sup> [www.banxico.org.mx/siteBanxicoINGLES/hOtrosServicios/Biblioteca/Biblioteca.html](http://www.banxico.org.mx/siteBanxicoINGLES/hOtrosServicios/Biblioteca/Biblioteca.html)

<sup>38</sup> See, for example, the presentation by Dr Guillermo Ortiz to the Senate, October 2005 at:

[www.banxico.org.mx/gPublicaciones/Presentaciones/2005/GOM4octubre2005.pdf](http://www.banxico.org.mx/gPublicaciones/Presentaciones/2005/GOM4octubre2005.pdf)

<sup>39</sup> See "Ley de Sistemas de Pagos" (in Spanish only) at:

[www.banxico.org.mx/SistPagos/FSSistPagos.html](http://www.banxico.org.mx/SistPagos/FSSistPagos.html)

<sup>40</sup> Interviews in Mexico, 3-6 October 2005. However, commentators acknowledge that the information provided by the central bank, in particular about the fees and commissions that financial institutions charge for providing services, has helped foster competition and improve the value for customers.

<sup>41</sup> *Información Financiera Contable del Banco de México* (in Spanish only):

[www.banxico.org.mx/doctosbm/navegacion.jsp?nombre=InfFinancieraContable](http://www.banxico.org.mx/doctosbm/navegacion.jsp?nombre=InfFinancieraContable)

<sup>42</sup> External Audit for Fiscal Year 2004 -- Auditors: KPMG Cardenas Dosal, S. C. (in Spanish only):

[www.banxico.org.mx/aAcercaBanxico/transparencia/auditorias/externo/2004/Informe%20Presupuesto%202004.pdf](http://www.banxico.org.mx/aAcercaBanxico/transparencia/auditorias/externo/2004/Informe%20Presupuesto%202004.pdf)

<sup>43</sup> *Auditoría Superior de la Federación*, audit reports (in Spanish only):

[www.banxico.org.mx/aAcercaBanxico/transparencia/auditorias/federacion/AudSupFederacion.html](http://www.banxico.org.mx/aAcercaBanxico/transparencia/auditorias/federacion/AudSupFederacion.html)

<sup>44</sup> See *Presupuesto ejercido* (in Spanish only):

[www.banxico.org.mx/aAcercaBanxico/transparencia/presupuesto/presupuesto.pdf](http://www.banxico.org.mx/aAcercaBanxico/transparencia/presupuesto/presupuesto.pdf)

<sup>45</sup> *Internal Comptroller audit reports* (in Spanish only):

[www.banxico.org.mx/aAcercaBanxico/transparencia/auditorias/contralor/auditorias.html](http://www.banxico.org.mx/aAcercaBanxico/transparencia/auditorias/contralor/auditorias.html)